

**Scenario 1. Wholesale market acquisition through “full requirements” auctions.**

This scenario envisions a load serving entity (“LSE”) “vertically” dividing the load obligation being auctioned into tranches, each of which has the same load shape as the total load being auctioned. Prospective suppliers, which may include affiliates, offer full requirements products to serve one or more tranches, with the winning suppliers being selected via an auction. This process could be used for total load or for the load of one or more classes.

**Scenario 2. Wholesale market acquisition through “full requirements” RFPs.** This scenario envisions an LSE dividing “vertically” the load obligation to be served into tranches, each of which has the same load shape as the total load, and issuing RFPs to the wholesale market seeking vendors to be responsible for supply for each tranche. Winning suppliers, affiliated or otherwise, are selected based on criteria identified in the RFP. As with an auction, the process could be used for total load or for the load of one or more classes.

**Scenario 3. Market-based acquisition by horizontal tranche or wholesale market segment.** This scenario envisions the LSE dividing its load into “horizontal” segments either by product type (e.g., 7x24, 5x16, etc.) or by resource characteristic (e.g., baseload, intermediate, peaking), with regulatory approval of the product type and term, and seeking wholesale suppliers for each segment. Winning suppliers, affiliated or otherwise, may be selected based on segment auctions or based on an RFP process. This approach could be used for total load or for the load of one or more classes.

**Scenario 4. Affiliate purchases (including possible affiliate use of market acquisition).** This scenario envisions the LSE contracting with an affiliate to satisfy all of the subject load obligation, including risk management. The affiliate, in turn, may contract with other suppliers to provide resources to meet its contractual obligation through market or other mechanisms.

**Scenario 5. Cost-index (e.g., MVI) based procurement regulation.** This scenario envisions a regulatory process setting a price benchmark for commodity costs, or for commodity and risk management costs, based on an index or formula. Under this scenario, the regulated LSE is free to design its own procurement strategy. It is at risk if its costs exceed the cap, but can retain at least a share of the benefits if procurement costs are kept below the regulatory benchmark.

**Scenario 6. Acquisition pursuant to an administrative Integrated Resource**

**Planning process.** This scenario envisions a periodic formal administrative process during which regulated LSEs would offer resource plans specifying forecast needs, proposed supply resources, and/or proposed procurement processes, which would be subject to review, modification, and approval by the regulator(s). The scenario envisions that acquisition will be consistent with the approved plan.

**Scenario 7. Rate freeze / transition period extension (continuation of current regulation).**

This scenario envisions an extension of the Mandatory Transition Period beyond January 2, 2007. Under this scenario, utilities could file revised DST rates and otherwise restructure their rates in accordance with Article XVI, but utility rates would otherwise continue to be subject to the bundled rate “freeze” and the existing rules concerning service obligations and competitive declarations.

**Scenario 8. Transition period expires; regulation continues under existing post-2006 law.**

This scenario envisions that the Mandatory Transition Period expires without major legislative change. Under this scenario, the ICC will continue to regulate rates for non-competitive service customers under traditional rate regulation principles and the existing statutes applicable to the post-transition period. Utilities could procure energy through any lawful means, including affiliate purchases, subject to any applicable regulatory limitations or requirements for regulatory approval.

**Scenario 9. Vertically integrated utility supply.**

This scenario envisions that retail load not served by Retail Electric Suppliers will continue to be provided by an integrated utility which remains responsible for production, transmission, distribution, and customer functions, as prior to restructuring. Under this scenario, the ICC will continue to regulate rates for non-competitive service customers under traditional rate regulation principles. Utilities would be free to construct, purchase, operate and control resources required to supply this load and to collect the costs thereof pursuant to traditional rate of return and regulation (or statutorily authorized alternative regulation plans).

**Scenario 10. Re-regulation of electricity production.**

This scenario envisions a fundamental change in legislative direction away from restructuring and reliance on markets, and toward a more regulated cost-of-service model for all aspects of the provision of electric utility service. Under this model, production assets would, to the extent possible, be re-regulated, utilities would again have the obligation to control and/or construct production resources, subject to regulatory approval, with cost recovery through regulated rates. The role of the wholesale market in energy procurement would be consciously reduced as production assets are returned to regulatory control.

**Scenario 11. Utilities exit the supply role (the “Texas Model”).** This scenario envisions that the utility is relieved of all responsibility for commodity supply and risk management and provision of default service, and that the default service obligation is bid out to other suppliers through a market mechanism. All customers are required to choose a RES as its supplier or be placed on default service. Utility rates, regulated under cost of service principles, are limited to unbundled delivery and other remaining utility functions, and are synchronized between default and RES customers.

**Scenario 12. Special rules for renewable energy acquisition.** This scenario envisions adoption of a renewable portfolio standard or target. Covered renewable resources could be acquired either using acquisition approaches outlined in other scenarios (e.g., by requiring their inclusion in products acquired via auction or RFP) or be purchased by the LSEs apart from the process for the acquisition of the remainder. *Note: renewable energy acquisition can be analyzed distinctly, as in this scenario, or in the context of any of the preceding scenarios through which renewable resources might be acquired.*

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As noted above, the twelve Scenarios are intended to be paradigmatic examples of industry structures and acquisition alternatives. They are not intended to exclude the recommendation or discussion of more nuanced or complex variations or combinations, for example, a combination of Scenarios 8 or 10 with scenarios 1, 2, or 3 that rely on competitive supply where effective competition can control prices and other regulated options in other cases. In addition, some members of the Group suggested that the structure and procurement features of the scenarios could be included as components of alternative “Market Models.” Several such models suggested by participants are summarized for illustrative purposes below:

**Illustrative Market Model A: Operate Under Existing Structure.** This Market Model envisions allowing the Mandatory Transition Period and the “rate freeze” to expire without taking any significant regulatory or legislative actions. Utilities could continue to procure energy through any lawful means (including affiliate purchases, wholesale market acquisition through “full requirements” auctions and/or RFPs, market-based acquisition by horizontal tranche or wholesale market segment or MVI based procurement regulation). Under this Model, existing bundled and unbundled rates would remain, subject to current law, and the revenue requirements continue to be set via rate cases based on cost of service. Under this Model, the ICC could continue in its current role: reviewing existing rates, responding to requests for competitive declaration of rate classes, and market monitoring.

**Illustrative Market Model B: “One Step Off” From Existing Structure.** This Market Model also envisions that the Mandatory Transition Period and the “rate freeze” are allowed to expire, but contemplates that the Illinois Commerce Commission and/or the General Assembly take some actions to restructure the Illinois retail electric market.

Under this Market Model, it again is possible that utilities could procure energy through any lawful means (including affiliate purchases, wholesale market acquisition through “full requirements” auctions and/or RFPs, market-based acquisition by horizontal tranche or wholesale market segment or MVI based procurement regulation). However, it also is possible that the Commission might require the utilities to adopt a particular procurement strategy, mandate additional demand-side management (and/or green power requirements), and/or impose integrated resource planning. Additionally, “special” (non-cost-based) rates and riders may be eliminated unless they are shown to be “just and reasonable.” Under this Market Model, utilities also might be required to unbundle their rates, create comparable customer classes and synchronize the delivery services charges components of rates charged to both “choice” customers and those customers who continue to take standard or default service from the utility. The delivery rate could be set, as under current law, via rate cases based on cost of service but would be the same for customers regardless of whether they enter the competitive market. Legislation also might be enacted to relieve the utilities of the obligation to provide PPO rates. Alternatively, the price of unbundled commodity might be based on the utility’s actual cost and might be fixed for varying periods based on customer class (e.g., residential may be fixed for multiple years, competitive rates may be hourly).

***Illustrative Market Model C: Utilities exit the supply role; rates unbundled and synchronized (the “Texas Model”).*** This Market Model envisions that the utility is relieved of all responsibility for commodity supply and risk management, and that default service is bid out through a market mechanism to other suppliers. All customers could choose a RES as its supplier or be placed on default service. Utility rates, regulated under cost of service principles, are limited to unbundled delivery and other functions remaining in the utility and are synchronized between default and RES customers.